

STATEMENT OF MICHAEL LIU
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BEFORE THE
UNITED STATES SENATE
COMMITTEE ON INDIAN AFFAIRS

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INTRODUCTION

Mr. Chairman, Mr. Vice Chairman, and Members of the Committee, thank you for inviting me to provide comments on President Bush's fiscal year 2005 budget for HUD's Indian Housing and Community Development programs.

My name is Michael Liu, and I am the Assistant Secretary for Public and Indian Housing. I am responsible for the management, operation and oversight of HUD's Native American programs. These programs are available to over 562 federally-recognized Indian tribes. We serve these tribes directly, or through their tribally designated housing entities (TDHE), by providing grants and loan guarantees designed to support affordable housing, community and economic development activities. Our partners are diverse; they are located on Indian reservations, in Alaska Native Villages, in other traditional Indian areas, and most recently, on the Hawaiian Home Lands.

In addition to those duties, my jurisdiction encompasses the public housing program, which aids the nation's 3,000-plus public housing agencies in providing housing and housing-related assistance to low-income families.

It is a pleasure to again appear before you, and I would like to express my appreciation for your continuing efforts to improve the housing conditions of American Indian, Alaska Native and Native Hawaiian peoples. From HUD's perspective, much progress is being made. Tribes are taking advantage of new opportunities to improve the housing conditions of the Native American families residing on Indian reservations, on trust or restricted Indian lands and in Alaska Native Villages. This momentum needs to be sustained as we continue to work together toward creating a better living environment for these groups.

OVERVIEW

At the outset, let me reaffirm the Department of Housing and Urban Development's support for the principle of government-to-government relations with federally-recognized Indian tribes. HUD is committed to honoring this fundamental precept in our work with American Indians and Alaska Natives.

You may recall that when I testified before you two years ago, I emphasized that there appeared to be a backlog of funding not obligated or expended by tribes. My statement caused a bit of a stir, and I received many calls from tribal leaders challenging this assertion. As it turns out, we were both right. There were more funds in the pipeline, but there was not nearly as much as we first estimated. This occurred because of the delays inherent in reporting requirements and the absence of a centralized system to collect this data. Tribal leaders and the National American Indian Housing Council assisted our regional Offices of Native American Programs in updating the data, we entered it into our system, and I am now confident that the majority of tribes are obligating and spending their grants in an expeditious manner. Our most recent reports, which are tracked and recorded by the Department's

electronic Line of Credit Control System, show that 88 percent of all grant funds appropriated have been obligated to grantees.

I'll begin my presentation by going over the budget numbers, and then I'd like to discuss two issues that I believe are of interest to the Committee: the large credit authority balances in our loan funds and my concerns about them, and the recently completed formula allocation negotiated rulemaking.

BUDGET SYNOPSIS

For FY 2005, the President's budget proposes a total of \$739 million dollars, specifically for Native American and Native Hawaiian housing in HUD. There is \$647 million authorized under the Native American Housing Assistance and Self-Determination Acts (NAHASDA). Of that amount, approximately \$640 million is for direct, formula allocations through the Indian Housing Block Grant Program. \$1.85 million in credit subsidy, which will leverage \$17.9 million in loan guarantee authority, is proposed for NAHASDA's Title VI Tribal Housing Activities Loan Guarantee Fund. \$71.575 million is for grants under the Indian Community Development Block Grant Program, and \$1 million in credit subsidy, which will provide \$29 million in loan guarantee authority, is for the Section 184 Indian Housing Loan Guarantee Fund.

The Native Hawaiian community will receive, through the Department of Hawaiian Home Lands, \$9.5 million for the Native Hawaiian Housing Block Grant Program, and \$1 million for the Section 184A Native Hawaiian Home Loan Guarantee Fund, which will leverage approximately \$37.4 million in loan guarantees.

There is a total of \$5.4 million available for training and technical assistance to support these programs.

Finally, the Department requests a total of \$6.5 million to support American Indian, Alaska Native and Native Hawaiian-oriented higher education institutions.

INDIAN HOUSING BLOCK GRANT PROGRAM (IHBG)

Adjustments within the Indian Housing Block Grant (IHBG) program account have been made to allow more funds to be available for direct tribal use. The FY 2005 budget includes \$647 million for the IHBG program. As with last year's request, reducing set-asides results in an increase in IHBG grant dollars available to tribes. For example, last year there was \$2.72 million set aside for the Working Capital Fund. This year, we are requesting that only \$500,000 be put aside for this purpose.

HUD TRAINING AND TECHNICAL ASSISTANCE

Training and Technical Assistance remains a critical component of the IHBG program. The Training and Technical Assistance set-aside is \$5 million, which has provided the initial training and technical assistance to most grantees, enabling them to function effectively under NAHASDA.

NAIHC TRAINING AND TECHNICAL ASSISTANCE

The President's Budget includes a \$2.485 million set-aside from the Community Development Fund to continue the support provided to the National American Indian Housing Council. No funds are provided under the IHBG training and technical assistance set-aside, as the Department believes that sufficient funding is provided through this source.

WORKING CAPITAL FUND

The Department's request of \$500 thousand for the Working Capital Fund will help provide information technology and data resources to support enhanced program assessments, performance measurements and accountability.

TITLE VI TRIBAL HOUSING ACTIVITIES LOAN GUARANTEE FUND

The Title VI Tribal Housing Activities Loan Guarantee Fund (Title VI) is also a set-aside under the IHBG Program. The President's Budget requests \$2 million in credit subsidy to continue loan activities at previous levels.

The program's subscription rates have been somewhat lower than originally anticipated. The current funds available will provide over \$ 392 million in loan guarantee authority, which is more than the program could use. Therefore, this budget proposes to rescind \$21 million of unused credit subsidy. However, the 2005 request will support \$17.9 million in loan guarantee authority, which will be sufficient to cover future program needs.

SECTION 184 INDIAN HOUSING LOAN GUARANTEE FUND

The President's budget request for this program is \$1 million. Each year, as required by the Credit Reform Act, the Section 184 Indian Housing Loan Guarantee Fund credit subsidy rate is recalculated. The program's subscription rates have been somewhat lower than originally anticipated. The current funds available will support over \$811 million in loan guarantee authority, which is more than the program could use. Therefore, this budget proposes to rescind \$33 million of unused credit

subsidy. However, the 2005 request of \$1 million in credit subsidy will support \$29 million in loan guarantee authority, which will be sufficient to cover future program needs.

INDIAN COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

The President's FY 2005 request for the Indian Community Development Block Grant Program is \$71.575 million.

NATIVE HAWAIIAN HOUSING BLOCK GRANT PROGRAM

For FY 2005, the Department is requesting \$9.5 million. There is a \$400 thousand dollar set aside for training and technical assistance. This budget recognizes the unique housing needs of Native Hawaiian families eligible to reside on the Hawaiian Home Lands, and HUD continues to address those needs. A final regulation implementing the NHHBG program was published in the *Federal Register* on November 28, 2003. This action follows promulgation of an interim rule on June 13, 2002, which allowed us to distribute funds and operate the program in fiscal years 2002 and 2003, while public comments were being considered and incorporated into the final regulations.

The Department of Hawaiian Home Lands (DHHL) has been an active partner; there are numerous affordable housing activities in process at more than 14 sites. Let me give you three examples. Waiakea 6, a project of 40 single-family homes, will be constructed on a 21-acre site near Hilo. \$2 million of FY 2002 NHHBG funds are being used for site and infrastructure improvements there. The Lalamilo project uses FY 2003 NHHBG funds for site and infrastructure improvements for 440 single-family homes on a 232-acre site in South Kohala. Additional FY 2004 NHHBG funds are earmarked for other construction activities at this location. A total of 320 units will be built in Waiohuli on the island of Maui. \$360,000 of NHHBG funds will be used to provide technical assistance and subsidize the construction costs for this phase of 17 self-help units.

SECTION 184A NATIVE HAWAIIAN HOUSING LOAN GUARANTEE FUND

The budget request includes \$1 million for the Section 184A Native Hawaiian Housing Loan Guarantee Fund. This program is now in its third year of operation. Modeled after the Section 184 program, the request will provide up to \$37.4 million in loan guarantee authority to secure market-rate mortgage loans and activities related to such projects to eligible entities, including the DHHL, non-profit organizations and income-eligible Native Hawaiian families who choose to reside on the Hawaiian Home Lands.

At present, including carryover funds, there is over \$119 million in credit authority available under the program. The DHHL, a State agency, is our primary program partner. Among their other activities, they are responsible for allocation of leasehold interests on the Hawaiian Home Lands. Until

direct-endorsement lenders are approved, the Office of Native American Programs (ONAP) National Programs Office will work closely with DHHL, other qualified program partners and individual borrowers to review, underwrite and issue guarantee certificates for all loans.

DHHL has initiated discussions with HomeStreet Bank to finance an affordable housing project on Oahu using the Section 184A loan guarantee program. DHHL's Land Development Division is attempting to identify and acquire a suitable site for a subdivision of 20 to 40 single-family homes. Fannie Mae has indicated a willingness to purchase the loan from HomeStreet Bank upon completion.

NATIVE HAWAIIAN PROGRAMS SPECIALIST

I'd also like to update you on the search for the Native Hawaiian programs specialist to be stationed in Honolulu. When we first advertised for the position, I received a number of resumes from people with good experience, but not the specific experience I want for this critical position. I asked my administrative office to re-advertise the position with different critical selection criteria, which they did, but again we did not receive a pool of highly qualified candidates with the appropriate experience. Then we had a hiring freeze, which has been lifted.

Within the next two weeks we will have this position posted on the Office of Personnel Management's website. I expect to see a number of highly qualified candidates respond. We will act quickly to fill this job.

TRIBAL COLLEGES AND UNIVERSITIES AND ALASKA NATIVE AND NATIVE HAWAIIAN SERVING INSTITUTIONS

The President's budget request for HUD includes, under the Community Development Fund, \$3.0 million for competitive grants to tribal colleges and universities to provide resources to build, expand, renovate and equip their facilities, and \$3.5 million to assist Alaska Native and Native Hawaiian serving institutions, as they are defined under the Higher Education Act of 1965.

LOAN GUARANTEE FUNDS BALANCES

Let me draw your attention to the loan guarantee funds I mentioned. The Section 184 Program provides a federal guarantee to mortgage lenders to protect them if a homeowner defaults and the property is on trust or restricted land. Indian tribes, their TDHEs and individual Native American families are eligible borrowers, but they must qualify under lender guidelines.

The Title VI Tribal Housing Activities Loan Guarantee Fund is also overflowing. This program is available only to IHBG grantees, and it allows them to supplement their housing program by

borrowing up to five times their annual grant. They can pledge their future IHBG allocations as security. Any activity eligible under NAHASDA is an eligible activity under the Title VI program.

Let me focus for a moment on the rescissions in these loan programs. The Department proposes to rescind unused credit subsidy of approximately \$54 million, which has accumulated in the funds over the past four-to-five years. This enabled us to preserve full funding for FY 2005 at the FY 2004 request levels in all Native American programs. The rescission will not occur until the end of FY 2005. Any unused credit subsidy that has been committed by that time will not be rescinded.

The ONAP is reaching out to tribes, TDHEs and the lending community in an effort to encourage them to use these programs. I have directed ONAP Deputy Assistant Secretary Rodger Boyd to make this his top priority. I'd like to challenge tribal leaders and the private sector financing community to make good use of these programs and to step up their housing activities by thinking "outside the box" about ways in which to utilize these funds and provide needed housing for their people. We will do everything we can to help.

FORMULA ALLOCATION NEGOTIATED RULEMAKING

In January, we held our seventh and final Formula Allocation Negotiated Rulemaking Committee meeting. The formula, which was created under NAHASDA and fleshed out in its implementing regulations, required revisiting and updating by this year. After extended deliberations, the Committee brought forward over 20 proposals, and reached consensus on about half. It was an arduous and challenging process, and I commend all Committee members, tribal leaders and members of the public for their dedication. After further consultation and review, we will publish a proposed rule for public comment before the end of this fiscal year.

Let me also state for the record that I am committed to holding the next negotiated rulemaking as expeditiously as staffing and resources allow.

CONCLUSION

Finally, let me state for the record that the President's budget request for HUD's Indian housing, education, community and economic development programs supports the progress being made by tribes in providing the housing needed in their communities and throughout Indian Country.

This concludes my prepared remarks. I would be happy to answer any questions you may have.